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FISCAL IMPACT STATEMENT

LS 7773 **NOTE PREPARED:** Mar 13, 2007
BILL NUMBER: HB 1657 **BILL AMENDED:** Mar 12, 2007

SUBJECT: Forestry Issues.

FIRST AUTHOR: Rep. Denbo **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Sen. Jackman

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) *Deductions:* This bill provides deductions to an individual in determining adjusted gross income (AGI) for a taxable year for (1) expenses incurred by the individual for property taxes imposed on property assessed as native forest land or a forest plantation; (2) expenses incurred by the individual for fees for the management of forests located on property assessed as native forest land or a forest plantation; (3) 50% of the part of federal AGI attributable to a net long-term capital gain (NLTCG) derived from the sale of timber; and (4) charitable contributions of property assessed as native forest land or a forest plantation. The bill provides that the deductions with respect to forest plantation apply only if (1) the classification as forest plantation occurred before July 1, 2007; or (2) if the classification occurred after June 30, 2007, all of the trees that qualify the land for the classification are native trees.

Effective Date: (Amended) January 1, 2008.

Explanation of State Expenditures: (Revised) This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Income Tax forms, procedures, and rules, as well as update computer software. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: The bill allows four new deductions from federal AGI for individuals liable for income tax in Indiana for tax years beginning January 1, 2008. The impact of revenue collections would begin in FY 2009.

Property Tax Paid on Native Forest Land: The first deduction is for property taxes paid on certain land assessed as native forest land or a forest plantation, so long as the individual did not deduct these amounts to arrive at federal AGI. The impact of this provision is indeterminable.

(Revised) *Background*–As of March 2007, there were 10,082 parcels with 10 or greater acres of forest in the Classified Forest & Wildlands Program. These parcels contained 504,858 acres of forests. The number of parcels of 10 or greater acres of forests owned by private landowners are estimated at 9,550.

Expenses for Management of Forests: The second deduction is for expenses incurred by the individual for fees for the management of forests located on certain property assessed as native forest land or a forest plantation. The impact of this provision is also indeterminable because the amount of fees that an individual might pay for management of forests is indeterminable.

Net Long-Term Capital Gains (NLTCG): The third deduction is for 50% of any NLTCG realized on the sale of timber included in the individual's federal AGI. To estimate the impact, the following assumptions were employed. NLTCG on timber reported on Form 1040 is the same as the net gain on timber, i.e., there are no offsetting long-term capital losses. Thus, the entire NLTCG on timber is included in federal AGI carried over to IT-40. On average only 5% of timber sale revenue is offset by basis of timber disposed of, i.e. the depletion allowance. The estimate considers the U.S. Department of Forestry report of average timber sales on classified forest land. County income tax assumes rate for Brown County, one that is heavily forested (rate is 1.25%). All timber sales flow through individual tax returns; no sales reported by corporations filing as C-Corps.

Impact of 50% deduction to Indiana AGI for NLTCG due to a disposal of timber on classified forests.		
	Amounts	**Units**
Number of sales	**340**	**each**
Average sale volume	**60**	**MBF**
Average price per MBF	**$300**	
Average sale revenue	**$18,000**	
Total timber revenue	**$6,120,000**	
Rev. reduction for depletion	**$306,000**	
Total NLTCG	**$5,814,000**	
Total reduction in Indiana AGI	**$2,907,000**	
Total reduction in state income tax revenue at 3.4%	**($98,838)**	

Charitable Contribution of Property: The fourth deduction is for the charitable contribution of property assessed as native forest land or forest plantation land. This deduction may be taken to the same extent that the individual was allowed to deduct this contribution under Section 170 of the Internal Revenue Code. The following assumptions were made in determining the estimate for this deduction: donations of land in fee equal 2,000 acres valued at $2,500. Donations of easements equal 2,000 with a value of $1,500. No offsetting tax revenue for the sale portion of any bargain sales of land or easements was considered. The Brown County local income tax of 1.25% was used. All donations taken at FMV for long-term capital assets.

Fiscal Impact of Reduction in AGI Equal to Charitable Contribution for Donated Value of Land or Conservation Easement Reported on Form 1040	
	Amounts
Charitable donations of fee land	$5,000,000
Eased land	$3,000,000
Total Donations	**$8,000,000**
Total Reduction in Indiana AGI	$8,000,000
Total Reduction in State Income Tax Revenue at 3.4%	**($272,000)**

Total state reductions in revenue for the third and fourth deductions equal approximately $307,838 annually. These deductions would be effective beginning in CY 2008 with a reduction in income tax revenue beginning to FY2009.

Background: Individual AGI Tax collections are deposited 86% in the state General Fund and 14% in the Property Tax Replacement Fund.

Section 170 of the Internal Revenue Code (IRC) sets the test for determining what amount of a deduction may be taken in a taxable year. There is a 50% and 30% test depending on the type of property contributed and the organization to which the property is contributed. The 50% test allows an amount equal to no more than 50% of the individual's federal AGI, while the 30% allows no more than 30% of federal AGI. Section 170 of the IRC also allows the remainder of any contribution above the 50% or 30% limitation to be carried forward for up to 5 years.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Net Long-Term Capital Gains (NLTCG):* County income tax revenue could be reduced. Given the assumptions listed in *Explanation of State Revenues*, total reduction in county income revenue is estimated at $36,338, assuming a rate of 1.25%.

Charitable Contribution of Property: Given the assumptions listed in *Explanation of State Revenues*, total reduction in county income revenue is estimated at $100,000.

State Agencies Affected: DOR, DNR.

Local Agencies Affected: Counties with local option income tax where deductions are claimed.

Information Sources: DNR; W. L. Hoover, FNR, Purdue.

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